SAFEWAY STORES, INCORPORATED · ANNUAL REPORT 1972

HIGHLIGHTS

		1972	1971
Operating Results	Sales	$6,057,633	5,358,837
	Income before provision for income taxes	168,364	155,127
	Provision for income taxes	77,308	74,948
	Net income	91,056	80,179
	As a percentage of sales	1.50%	1.50
	As a percentage of stockholders' equity	15.81%	15.38
	Per share of common stock	$ 3.55	3.14
	Dividends to common stockholders	34,636	33,200
	Per share of common stock	1.35	1.30
Financial Position	Working capital	$ 237,370	174,784
	Current assets per dollar of current liabilities	1.64	1.51
	Total assets	1,137,375	964,471
	Long-term notes and debentures	128,123	50,208
	Equity of common stockholders	606,305	545,867
	Per share of common stock	23.57	21.35
Other Statistics	Number of employees (at end of year)	105,613	97,463
	Number of stockholders of record (at end of year)	65,471	67,576
	Number of stores opened during year	142	121
	Number of stores closed during year	94	135
	Total stores at end of year	2,331	2,283
	Total square feet of stores at end of year [1]	44,844	42,752
	Average annual sales per store	$ 2,613	2,308
	Common Stock price range New York Stock Exchange — Low-High	34-44¼	32⅛-40¼

Note: Dollars are in thousands except per share figures. [1] In thousands.

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In the map room at Company headquarters, Board Chairman Reynolds, President Mitchell, and Executive Committee Chairman Magowan review the marketing area surveyed by the helicopter shown on the front cover. Store site selection is aided by aerial photography and the new rear-projection screen seen in operation here.

To Safeway Shareholders, Customers and Employees:

In a year of severe challenge for the retail food industry, Safeway made solid progress.

Consolidated sales in 1972 passed the $6 billion milestone for the first time, registering a gain of 13.0% over the prior year and a doubling of volume in just seven years. Net income also reached a new level of $91.1 million, a gain of 13.6% over 1971. Earnings per share came to $3.55 in 1972 versus $3.14 in 1971, of which investment tax credits accounted for 21¢ and 12¢, respectively.

Net income as a percentage of sales was 1.50% compared with 1.50% in 1971 and 1.42% in 1970.

Under Phase 2 restrictions increases in labor costs and other non-merchandise expenses could not be passed along. In such case, dollar profit levels can be sustained only by (1) maintaining a healthy sales growth, and (2) controlling expenses. In the first category, sales increases have resulted both from more business in the same stores and from additional business generated by new stores. We have maintained a strong building program, opening a total of 142 stores during the year, while closing 94 obsolete ones. Since the new stores are significantly larger in size, we had a net gain of approximately 2 million square feet of retail floor space.

Capital expenditures of approximately $210 million were allocated to construct these new stores, along with the necessary plant and warehouse facilities to service the increased volume. A portion of this was financed through a $65 million issue of 25-year 7.40% sinking fund debentures.

In the expense category we have continued with a thorough-going cost control program to reduce expenditures and improve operating efficiency wherever possible. Although much remains to be done, results to date are encouraging.

In February the annual dividend rate was increased from $1.30 to $1.35 per share, keeping within the guideline limits suggested by the Cost of Living Council.

Four vice presidents reached retirement age in 1972. They were: W. C. Peet, Jr., in charge of operations services; B. H. Dean, Jr., real estate finance; R. J. Matheison, produce supply; and A. V. Scollard, meat and egg supply. All have made noteworthy contributions to the Company's growth, and have laid the groundwork for continued development in their respective areas.

During the year the managers of our six U.S. Supply Divisions were promoted to vice-president status, giving recognition to the important contributions made by these operations in developing quality products for our private label program.

Our overseas operations are now ten years old, and have well justified the decision to enter this field back in 1962. At fiscal year-end there were 103 stores in the United Kingdom, West Germany and Australia, with combined sales running at an annual rate of approximately $254 million (these operations have different fiscal years than the U.S. and Canada). 1972 saw continued progress, with sales and net income exceeding the previous fiscal year by 49% and 109%, respectively. An additional 25 overseas stores are targeted for this next year.

The joint venture with Holly Farms Poultry Industries, Inc. is progressing well. Nineteen fried chicken outlets now operating in the Washington, D.C.-Maryland-Virginia-North Carolina area are showing appreciable gains in revenue. Plans are set to expand to our Midwest Region in the near future.

On pages 8 and 9 of this report, a montage of sample advertisements illustrates numerous activities of the Company in the field of consumer service. Unit pricing, open dating, nutritional education, anti-litter programs, home budget planning assistance, and ecology programs are all part of the ongoing job of helping customers to shop better and live better.

Safeway has approximately 1,300 union contracts, perhaps more than any other single employer. Healthy relationships that have typically characterized these negotiations reflect an atmosphere of mutual respect and recognition of a common commitment to prosperous growth.

General economic prosperity in 1973 appears to be well assured. We continue to support the President's stabilization program as an effort to assure consumers that the benefits of this prosperity will not be eroded by inflation.

Quentin Reynolds
Chairman of the Board and Chief Executive Officer

W. S. Mitchell
President

Robert A. Magowan
Chairman of the Executive Committee

VANCOUVER DIVISION
PRAIRIE DIVISION
WINNIPEG DIVISION
SEATTLE DIVISION (Includes Alaska)
SPOKANE DIVISION
PORTLAND DIVISION
BUTTE DIVISION
C. A. Bradburn, V.P.
NORTHWEST REGION
Floyd H. Gifford, V.P.
ROCKY MOUNTAIN REGION
SACRAMENTO DIVISION
NORTHERN CALIFORNIA REGION
G. H. Parker, Sr. V.P.
SAN FRANCISCO DIVISION (Includes Hawaii)
SALT LAKE CITY DIVISION
DENVER DIVISION
OMAHA DIVISION
KANSAS CITY DIVISION
James A. Rowland, V.P.
MIDWEST REGION
SOUTHERN CALIFORNIA DIVISION
PHOENIX DIVISION
SOUTHWEST REGION
Earl W. Smith, V.P.
EL PASO DIVISION
OKLAHOMA CITY DIVISION
TULSA DIVISION
LITTLE ROCK DIVISION
Horace A. Justice, V.P.
SOUTHERN REGION
DALLAS DIVISION
GLASGOW
United Kingdom
LONDON
HAMBURG
West Germany
EUROPE DIVISION

Regions and Divisions

Basil M. Winstead, V.P.

AUSTRALIA
DIVISION

At year's end Safeway operated 2331 stores in the United States, Canada, the United Kingdom, West Germany, and Australia. Note the new regional grouping of our U.S. Divisions into seven Regions where previously there were two. U.S. Division Managers report to their respective Regional Managers (see photos on map); Canadian and overseas Division Managers report to the President. The Manager of the Northern California Region (a Senior V.P.) also reports to the President, as does Henry B. Clay, Senior Vice President responsible for the other six Regions.

NORTHERN CALIFORNIA REGION

SACRAMENTO DIVISION, Frank J. Glasgow, 89 Stores
SAN FRANCISCO DIVISION, L. A. Bianco, 211 Stores

NORTHWEST REGION

PORTLAND DIVISION, Fred E. MacRae, 99 Stores
SEATTLE DIVISION, Dale L. Lynch, 119 Stores
SPOKANE DIVISION, L. M. Pringle, 39 Stores

ROCKY MOUNTAIN REGION

BUTTE DIVISION, Sam E. Raburn, 36 Stores
DENVER DIVISION, Eldon W. Starkey, 146 Stores
SALT LAKE CITY DIVISION, Peter P. Martin, 59 Stores

SOUTHWEST REGION

PHOENIX DIVISION, Henry J. Frank, 48 Stores
SO. CALIFORNIA DIVISION, Robert L. Jaynes, 240 Stores

SOUTHERN REGION

DALLAS DIVISION, Carey A. Ford, 203 Stores
EL PASO DIVISION, Robert E. Livesay, 53 Stores
OKLAHOMA CITY DIVISION, R. E. Templeman, 70 Stores

MIDWEST REGION

KANSAS CITY DIVISION, Jack L. Anderson, 99 Stores
LITTLE ROCK DIVISION, W. W. Liedtke, 75 Stores
OMAHA DIVISION, Forrest Woolery, 85 Stores
TULSA DIVISION, John W. Warthan, 51 Stores

EASTERN REGION

WASHINGTON, D.C. DIVISION, John Bell, 237 Stores

CANADA

PRAIRIE DIVISION, A. G. Anselmo, 119 Stores
TORONTO DIVISION, David Laub, 11 Stores
VANCOUVER DIVISION, T. Milburn, 89 Stores
WINNIPEG DIVISION, W. F. Griffiths, 50 Stores

OVERSEAS

AUSTRALIA DIVISION, J. W. R. Pratt, 36 Stores
EUROPE DIVISION, John S. Kimball,
53 Stores in United Kingdom; 14 Stores in West Germany

Younger Managers Move Up

V.P. and Division Manager Carey Ford (left) and Retail Operations Manager Dean Gantt, Dallas Division. Expanded Distribution Center ships about 11,500 tons a week to Division's 203 stores.

The new regional grouping of our Retail Divisions and the appointment of six new Regional Managers is graphically illustrated on the preceding map pages.

This was a move to meet the needs of growth and expansion, and to strengthen our local response to modern-day marketing challenges and change.

But another purpose linked to these may be of equal or even greater significance for the future. That was to capitalize on the wealth of trained and experienced young middle management talent in Safeway.

Appointment of the six new Regional Managers created openings at each level all through the retail operating line. It meant promoting six new Retail Division Managers, six new Retail Operations Managers, six new District Managers, and six new Store Managers. That's a total of 30 promotions—managers moving up to greater responsibility and growth as a result of the organizational change—an infusion of the kind of management vitality that helps to keep a company young.

Safeway is in fact a relatively young company, incorporated in 1926 just 47 years ago. In this time we have become one of the 15 leading (in sales) U.S. corporations, all but two of which are older. Our entire growth has occurred within the lifetime of our founder, M. B. Skaggs, who opened his first store in American Falls, Idaho in 1915, and is now living in California.

The men pictured on these pages are Retail Division Managers, and Retail Operations (or Zone) Managers (second divisional level). All six U.S. Division Managers shown are in their forties, and all five U.S. Retail Operations Managers shown are in their thirties.

Eldon W. Starkey, V.P. and Denver Division Manager, dons a hard hat for this picture beside a new Safeway store under construction. His responsibilities include operating 146 stores in a 6-state area. Denver Division has a strong building program in progress, with 9 new stores under construction at year-end, and a total of 15 planned for 1973.

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BUSINESS INF. BUR.
CORPORATION FILE

Debarking from the airplane is Forrest Woolery, V.P. and Omaha Division Manager. Air travel saves executive time on trips to the Des Moines area, where the Omaha Division has 15 stores.

Five of the Retail Division Managers and three of the Retail Operations Managers moved up as a result of the new Regional Manager appointments. (Those in equivalent job and age categories in our Canadian and Overseas operations appear in the group of pictures on page 7).

These are big jobs.

A Retail Operations Manager is second in retail command only to the Division Manager, and is responsible for store operations. In the largest Divisions the stores are divided among two or three Retail Operations Managers.

At the helm is the Division Manager, in charge of many stores in a given geographical area (see map). He runs a virtually free-standing operation including a Distribution Center complex of three or more warehouses and a fleet of trucks. His staff departments include buying, merchandising, advertising, accounting, employee relations, public relations, real estate, design and construction, and security. Total people in a Division ranges from 1,100 in a smaller one to more than 11,000 in a larger one.

Where do we find managers equal to these jobs? We develop them. We live and preach people development; we systematically forecast needs for trained and experienced managers; we identify them and provide the training and experience to qualify them for today's complex and demanding conditions; and we create opportunities for them to move up.

Keeping track of future needs for managers and planning ahead to have them ready is of course basic principle for any organization that intends to grow.

In Safeway this planning begins when the Divisions each year are asked to estimate how many managers they will need at each level due to normal retirements and attrition as well as for expansion and growth—to manage new stores and the additional sales volume of Divisions and Districts. These data are then consolidated; and the numbers are impressive. They keep us highly sensitive to the need for continuous, day in and day out programs for developing managers.

For example in the next eight years through 1980, Safeway will need to train and develop retail management talent as follows: 2,400 Store Managers, 240 District Managers, 34 Retail Operations Managers, 20 Retail Division Managers, and 4 Regional Managers.

We expect to have the needed people ready.

Truck is appropriate background in this photo of Sam Raburn, V.P. and Butte Division Manager. One of the longest hauls in Safeway is from Butte to our Sidney, Montana store—500 miles one way.

This is W. W. Liedtke, V.P. and Little Rock Division Manager. His 75 stores include 3 in Mississippi, our only U.S. stores east of the Mississippi River except for Washington, D.C. Division.

As the executive responsible for all stores, a Retail Operations Manager spends considerable time in them. Here Joel K. Flory, Tulsa Division, inspects display of Safeway guaranteed meats.

When expansion and growth made regional realignment advisable last year, qualified, trained and experienced people were ready to move up into the many new openings created. They were ready because more than a decade ago the Company began a program of dedicated efforts in "people planning" to determine our needs and develop the managers to fill them.

"Developing" includes both formal training and job experience. The latter provides progressively increasing responsibility, and often involves transfer to different operations having different conditions and new challenges. This interchange of people and ideas is a known antidote for corporate hardening of the arteries.

Formal training is accomplished through the Company's comprehensive array of management programs. They are:

1. Retail Clerk Training. This begins with training schools for newly-hired food clerks, and continues with job rotation, a strong program of performance appraisal, and coaching by Store Managers. The program starts the best clerks toward assistant store managership.
2. RMTP—our Retail Management Training Program, wherein the most likely candidates learn to handle the responsibilities of a Store Manager. At this moment more than 450 are taking RMTP.
3. MDP—the Management Development Program, which twice a year brings a group of selected Store Managers into corporate headquarters for eight weeks, to round out their training for District Management.
4. AMP—our Advanced Management Program, given to a District Manager who has been selected to become a Retail Operations Manager. He spends several weeks at the Administrative Office on intensified preparation to take over the high level job. Among 18 who have completed this course, 6 have already become Division Managers.

Of key importance in this lineup is the Management Development Program. It is largely responsible for the wealth of capable younger middle management talent in the Company today.

The current MDP began in 1960. Since then 27 classes of 12 to 16 each have graduated from this 8-week, twice-a-year, program at corporate headquarters. Of the 341 retail "alumni" to date, 2 are now Regional Managers, 14 are

John Bell (right), V.P. and Manager of our 239-store Washington, D.C. Division, talks with Congressman Lawrence J. Hogan, 5th District, Maryland. Division headquarters are at Landover, Md.

We recently opened a warehouse and Zone office in Richmond, Va., to handle our expansion there. Ralph Ward (right), Richmond Zone Manager, discusses plans with Virginia Governor Linwood Holton.

J. W. R. PRATT
Australia
Division Manager

JOHN S. KIMBALL
Europe
Division Manager

Shown here are Division Managers, Zone Managers, and Retail Operations Managers in our international operations who are in the same job-and-age categories as the U.S. managers featured on these pages. In Canada, Australia, United Kingdom and West Germany, results were good with expanding sales in 1972. Total number of stores overseas increased to 103 as of year-end 1972, up from 89 a year earlier.

D. C. FRASER
Australia
Retail Operations Mgr.

M. J. FILZEK
Germany
Zone Manager

H. E. LIEDTKE
Germany
Retail Operations Mgr.

R. F. HENDY
Saskatoon
Zone Manager

HENRY REMPEL
Vancouver
Retail Operations Mgr.

Retail Division Managers, 34 are Retail Operations (or Zone) Managers, and 167 are District Managers.

When initiating this program more than a decade ago Robert A. Magowan, then President and Board Chairman, called in four key retail operators from different Divisions to recommend course content to our headquarters training people. They talked for three days to lay the groundwork. Mr. Magowan, now Chairman of the Executive Committee, in addressing the latest graduating class said:

"Starting this program was one of the wisest things we ever did in this Company."

All the men pictured on these pages attended MDP, then moved up through years of seasoning in progressively more responsible jobs.

This article is captioned "Younger Managers Move Up"—and features the youngest in two high-responsibility jobs to illustrate this truth. But of course ability and not age is the main qualification for advancement in Safeway.

Another point—youth in Safeway does not equate with inexperience. The *average* years of Safeway retail experience for the six U.S. Retail Division Managers pictured on these pages is 26 years (a total of 154 years for the group). The average years of experience for the five U.S. Retail Operations Managers shown is 15 years (a total of 74 years for all).

"People-planning" keeps us urgently aware of the need for continually training new managers. This awareness breeds a stimulating sense of opportunity and challenge throughout the organization.

It's a good feeling.

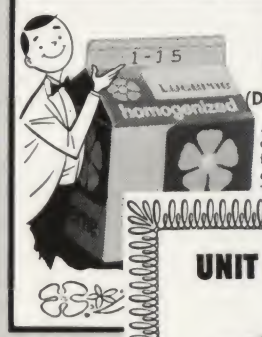
P. A. Magowan, Retail Operations Manager, Phoenix Division, at the Distribution Center in Tempe, Arizona. Two additional warehouses and a truck repair shop were completed here in 1972.

Here R. L. Campbell, Jr., Retail Operations Manager of our Sacramento Division, stops by TV studio to review TV commercial production for tie-in with retailing plans.

Look For UNIT PRICING

It Can Save You Money!

You can compare costs on products and sizes at a glance! The unit pricing tag shows you our selling price and your cost per pint (or most appropriate



HOW WE MAKE EXTRA SURE SAFEWAY BRAND FOODS ARE ALWAYS SOLD FRESH

(Dates on packages? We've used them for years!)

All perishable foods which Safeway manufactures or processes carry a date which our store people use to make absolutely certain that only fresh foods are sold at Safeway. Here, for example, is how the date looks on a carton of Safeway Brand milk:

This date, which appears on the "gable" at the top of the milk carton, tells of "1-15" is not to at the Safeway milk or more with proper

UNIT PRICING

Sometimes it's very difficult to determine the best buy from a group of items. Now, in addition to showing your low discount price, unit pricing shows you the "Price per ounce" or other unit of comparison that best fits the group of products. Thus, you can determine at a glance the best value for your family's needs.

INFLATION FIGHTERS

HELP FIGHT INFLATION and EAT WELL, TOO!

Safeway Suggests these INFLATION FIGHTERS—Foods which are low in price, nutritious, and in plentiful supply.

SAVE ON YOUR FOOD BUDGET BY USING THESE CURRENT "INFLATION FIGHTER'S

- ✓ Smoked Ham
- ✓ t (7 inch cut)
- sage
- us (Fresh)
- uit (Fresh)
- , Chickory, Escarole
- es
- otatoes
- gs
- ✓ Salad Oil
- ✓ Peanut Butter
- ✓ Margarine
- ✓ Shoestring Potatoes (frozen)
- ✓ Flour
- ✓ Olives
- ✓ Fresh Bread
- ✓ Green Peas (frozen)

s and Delicious!
se devilishly—good.

f Stuffed Eggs
or Turkey or Chicken

Ham-Stuffed Eggs

8 hard-cooked eggs
1 tsp. dry mustard
½ tsp. salt
¼ tsp. pepper
Paprika
½ cup mayonnaise or salad dressing
1 cup ground or fine-cut cooked ham*
½ cup fine-cut green onions
½ cup fine-cut celery
¼ cup fine-cut green pepper

Peel eggs and cut in halves, lengthwise. Scoop out yolks and mash. Combine with other ingredients and mix well. Fill egg white halves with mixture. Sprinkle with paprika. Delicious served with French fries, asparagus spears, sliced tomatoes, brown and serve rolls.

*Cooked turkey or chicken may be substituted for ham.

Responsibility

Our responsibility to consumers in today's society goes beyond offering products for sale. As shown in the montage on these pages, Safeway advertising includes many examples of actions taken to aid consumers—such as providing more information to help them make better buying decisions, and supporting programs to help reduce pollution and preserve the ecology. We too have a stake in doing our part toward improving the quality of life for all.

NUTRITIONAL VALUES OF SEAFOOD

Information in this chart developed from U.S.D.A. Handbook No. 8, COMPOSITION OF FOOD, RAW, PROCESSED and PREPARED.

SPECIES	AVERAGE FOOD ENERGY Calories	AVERAGE PROTEIN Grams	AVERAGE FAT Grams
	Amounts in Approximately 3½-oz. (100 grams) Edible Portions		
COD	78	17.6	0.3
HADDOCK	79	18.3	0.1
FLOUNDER SOLE	79	16.7	0.8
WHITING	74	16.5	0.4
TURBOT Greenland Halibut	146	16.4	8.4
HALIBUT Atlantic & Pacific	97	19.8	1.4
SALMON King	222	19.1	15.6
SALMON Pink	119	20.0	3.7
OCEAN PERCH Atlantic-Redfish	88	18.0	1.2
CRABS Blue, Dungeness, King	93	17.3	1.9
SHRIMP	91	18.1	0.8

PLENTIFUL FOODS for JANUARY

PLENTIFUL FOODS USDA

- Apples
- Winter Pears
- Split Peas
- Potatoes
- Potato Products
- Broiler-Fryers

YOUR FAMILY NEEDS ALL 4 BASIC FOODS DAILY

Vegetables, Fruits
4 or more servings per day from vitamin-rich fruits and vegetables such as citrus fruits, melons, berries, green and yellow vegetables, potatoes, etc.

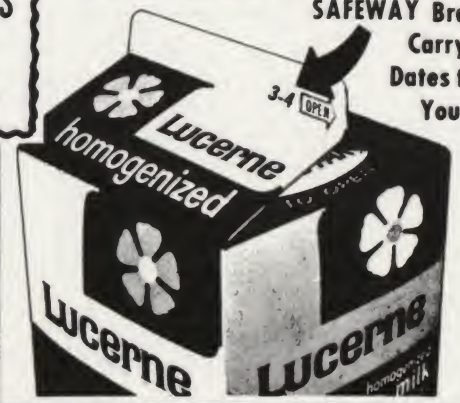
Cereals, Breads
4 or more servings per day of whole grain, enriched, or restored cereal products.

Dairy Group
The equivalent per day in dairy products of 3 to 4 cups of milk for children and 2 or more cups for adults.

Meat Group
2 or more servings per day of beef, veal, pork, lamb, poultry, fish or eggs. Alternates: dry beans, dry peas, nuts.

OPEN DATING

SAFEWAY Brand Dairy Foods Carry Easy-to-Read Dates that Help Ensure You FRESHNESS.



When the number (3-4), for example, appears on the product container, our employees know that the item is not to be sold after March 4th. Being positive no item remains on the shelves after the printed date, ensures you Dairy Foods are FRESH and good for many more days after you take it home, if kept under proper refrigeration.

LITTER IS A PEOPLE PROBLEM! PLEASE HELP

"Open Dating" is one reason!

All of the perishable foods, including meat and produc
process, ca
sure way to
are on sale
an item is
be sold. If
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and wholes
time after

Since
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Here's How You Can Be Sure the Safeway Brand Foods You Buy are Always Fresh.

Safeway's Open Dates Insure Freshness.

The date which appears on the tab near the price of the Safeway Bread tells our employees that any loaf which carries a date of "3" must not be left on sale after the third day of the current month. We do this to make sure the Safeway Bread you buy will remain fresh for a sufficient period of time when properly stored.

Here's How You Can Be Sure the Safeway Brand Foods You Buy are Always Fresh.

3 20

afeway's Open Dates Insure Freshness.

date which appears on the bottom of th
ton of Lucerne Cottage Cheese tells our em
yees that any carton which carries a date of
20" must not be left on sale after March 2
do this to make sure the Lucerne Cottag
ese you buy will remain fresh for a suff
t period of time when properly stored.

RECYCLE YOUR OLD LICENSE PLATES

Safeway in cooperation with ECO (Educated Consumers Organization) will begin the license plate drive Jan. 10. Bring your old license plates to Safeway and deposit in specially marked box.

DO YOUR PART PLEASE DON'T LITTER

You'll find savings in larger sizes and between brands.

EQUALS 32.0¢ PER POUND
12 OZ PKG
SAFEWAY CORN FLAKES
24 25313
24

EQUALS 36.0¢ PER POUND
12 OZ PKG
KELLOGG CORN FLAKES
24 25309
27

EQUALS 29.4¢ PER POUND
18 OZ PKG
SAFEWAY CORN FLAKES
24 25312
33

EQUALS 32.9¢ PER POUND
18 OZ PKG
KELLOGG CORN FLAKES
24 25308
37

ECOLOGY, POLLUTION AND ENVIRONMENT

Positive Actions Safeway in Southern California Has Already Taken To Help Our Environment:

- We recently increased the deposit on our Craigmont brand soft drink bottles to encourage more bottle returns. Our brand soft drinks and beer sold in cans have the message on the lid "Please don't litter—dispose of properly."
- We use a single extra-strength carryout bag for heavy grocery loads instead of two regular bags.
- We offer you a choice of phosphate products.
- We package our own brands in biodegradable cartons.
- We have a unique cardboard [illegible] most stores and in our warehouses. This cardboard packaging is collected and returned for reprocessing. This enabled us to eliminate trash burning to make details of this program available to any business or person who is interested.
- We are installing pollution-reduction devices on all Safeway trucks, in an effort to reduce air pollution to a minimum.
- We have a regular tune-up and maintenance program for all trucks aimed at producing more efficient burning of fuel, thereby reducing exhaust emissions.
- We have eliminated the use of phosphates in the washing powders in our own brands.
- We have changed the bottles and cartons used for our own brands to returnable bottles and the widest possible use of recyclable cartons.
- We have installed facilities in our stores to assist customers, manufacturers and local governments in matters relating to recycling of materials. Locations are found, too!

Safeway is interested

Operation LITTER CONTROL April 22-May7

A Campaign to create Statewide public awareness and participation in the physical pick up of visual blights in your state. Contact Litter Control, State of Washington Dept. of Ecology, Olympia Wash.

POSITIVE STEPS TO HELP ECOLOGY!

Now Safeway makes it possible for you, as an individual to do something positive to help ecology with products designed specifically for that purpose. They're top quality products and discount priced too. Try them this week.

Par Detergent

Bio-Degradable. Contains no phosphate... no enzymes. NET WT.

48-oz. pkg.
59¢

Paper Napkins

Tree Saver Brand

Available in pink, yellow or white. Made only from 100% recycled paper.

pkg. of 60
10¢

Paper Towels

Tree Saver Brand

Available in pink, yellow or white. Made from 100% recycled paper.

178 count roll
25¢

SAFEWAY

We reserve the right to limit quantities. None sold to dealers. Prices in this ad good through Tuesday, April 27, 1971 in Denver, Adams, Arapahoe, Jefferson and Boulder Counties plus Idaho Springs and Fort Lupton.

Distribution Center at Salt Lake City serves the Division's 59 stores in five states. Construction adding a new grocery warehouse and truck repair shop was completed in late 1972.

Active Year of Building, Expansion for Safeway Distribution Centers

Major additions to two Distribution Centers and the start of another featured an active year in building and expansion of warehousing facilities in 1972.

In Salt Lake City we completed a new grocery warehouse and truck repair shop adjacent to the existing produce warehouse. The new 188,000 square-foot facility handles an estimated 1,350 tons of groceries a week, has 30 truck shipping and receiving doors and an interior rail dock for 7 cars, serving the Division's 59 stores in 5 states.

In Tempe, Arizona, we constructed a new produce warehouse, meat warehouse, and truck repair shop at the site of the existing grocery warehouse. This complex serves the 48 stores of our Phoenix Division.

Other new construction completed in 1972 included a new distribution center in Melbourne, Australia; new non-foods warehouses at Denver and at Bellevue, Washington; and a new frozen foods warehouse at Spokane. We opened a new leased warehouse in Toronto, Canada.

Major building expansions completed were the Kansas City grocery warehouse and truck repair shop, the Garland, Texas meat warehouse and truck operations center, the Bellevue, Washington frozen foods warehouse, and our warehouse at Thunder Bay, Ontario.

In El Paso, construction began on a new complete distribution center, including three warehouses and a truck repair shop. Work also started in 1972 on other new warehouses at Tulsa, Fremont (Calif.), Calgary, and Burnaby (B. C.).

Serving the Really Young with S Brand Disposable Diapers

Disposable diapers, "in" with the really young set, were introduced as a new S-Brand item (Truly Fine) in 1972.

They are highly absorbent, comfortable, and require no pins or plastic pants. They feature a self-stick tape fastener that allows "all thumbs" fathers 12 seconds to adjust the tape before the adhesive sets firmly.

Some 170 new Safeway Brand items were introduced in 1972, including Lucerne 1-10 Milk, Safeway Boneless Flat Hams, Busy Baker Cool Mint Bon Bons, Bel-air Frozen Sour Dough French Bread, and a line of Country Pure Jam.

Some 25 billion diaper changes are made yearly in the U.S.—a $1 billion market. Disposables expect to have half of it soon.

Electronic controls play a key role in our new milk plant at Garland, Texas. This is our newest and largest, completed in 1972.

Milk, Ice Cream Plants Completed

A new milk and ice cream plant complex was completed early in 1972 in Garland, Texas, serving our Dallas Division.

The milk plant is our largest and one of the world's most modern. A unique new computer system developed by a Safeway engineer controls refrigeration for both plants.

It takes the computer only 15 milliseconds to monitor all equipment functioning. This means it does so about 65 times each second!

Other Dairy Division construction completed in 1972 included a new ice cream plant in Little Rock; expanded ice cream plants in Bellevue, Washington and Los Angeles; and expanded milk plants in Oklahoma City; Landover, Maryland; and Edmonton, Canada.

Jobs in Stores Help Youths Finance Their Education

Many young people of high school and college age help finance their education by working in a Safeway store.

Two examples may be seen in the photos shown here.

The young man is Stephen Crane of Phoenix, Arizona, now a freshman at Amherst College. He wrote to our Phoenix Division as follows:

"Even though I am very excited about attending college, I'm going to miss working at my Safeway store. I'm going to miss the people I worked with, liked, and respected.

"Working for Safeway was my first job. A job that taught me many important lessons: Doing a job well, honesty, tact, promptness, and going beyond the normal requirements of a job, putting out that little extra.

"Due to my job at Safeway I was able to save up $1,500 toward my college education which, as I'm sure you could guess, makes my dad very happy. I was also able to buy a red car to transport my brother, sister and myself to school and back.

"I thank you very much for giving me an opportunity to better myself and shall carry the experience for the rest of my life."

This is gratifying to know—and it works both ways. The Company benefits greatly from the energy, enthusiasm, talent and ability that many of these young people bring to the job.

V.P. and Phoenix Division Manager Henry J. Frank and Food Clerk Stephen Craig are pleased about his winning scholarship to Amherst. Stephen thanked Safeway for help (see story).

NEWPORT NEWS-TIMES PHOTO

Debbie Schubert, art major at Oregon College of Education, works part time as a courtesy clerk at Safeway's Newport, Oregon store.

Australia Division Checker Awarded Top State Honors

Cheryl Serong of our Safeway store in Northcote, Victoria, Australia, won first prize in the Victoria State finals of the 1972 "Checker of the Year" contest. Winning over 200 other entrants brought her $300 and the privilege of representing Victoria in the All-Australia finals.

Cheryl Serong is congratulated by W. S. Mitchell.

Staff member of our Omaha Division awards trophies to 4-H winners in sheep, beef, and swine competition at Nebraska State Fair.

Safeway Supports 4-H Youth Projects in Many Communities

Safeway's traditional support of 4-H youth projects continued in 1972, including help with adult leadership, scholarships, etc., in many communities.

4-H is a program under the USDA Extension Service for young people 9 to 19. Its purpose is character development through "learn by doing" projects in plant and animal science, homemaking, and community service.

Henry B. Clay, Sr. V.P.-Retail (right) is briefed at computer center by Neils V. Lawson, V.P., Mgmt. Information & Services Group.

Central Computer Will Serve All U.S. Divisions by End of 1973

Five years ago on the opening of our new Corporate Data Processing Center in Oakland, our 1967 Annual Report spoke of great expectations from the Company's decision to "go central, with most of the payoff years away."

Today much of that payoff is here. The system is now a fact; it is working successfully as an integral part of daily operations. All but four of our U.S. Retail Divisions are being served by the central computer and the rest will be by the end of this year.

The system now provides for store order processing and warehouse replenishment, along with a wealth of related management information.

By year-end most Divisions will also be on a centralized general ledger, providing less costly, more uniform and timely accounting overall.

Store Test of Electronic Checkout Gets Under Way

Our test of an advanced electronic checkout system was well under way at year end in our Alamo, California store.

We expect it will be three or four months into 1973 before data collection and analysis yield solid conclusions about its economic feasibility.

Instead of a cash register, the checker uses a "wand" to "read" a symbol imprinted on most packages identifying the item. The computer instantly flashes the price on a screen for the customer and prints a receipt for her purchases. It accumulates sales data by item for visual analysis at any time and provides totals which are transferred to the central computer for operating reports.

The system is well received by customers; sales in the test store are at new highs, perhaps partly because of it. Most like the assured accuracy but seem unaware of the speed, because the process is much quieter, with less stress and motion.

It is a boon for checkers. They must stay alert, but both physical and mental effort are greatly reduced. An employee once having wielded a "wand" is reluctant to go back to cash-register checking.

Management benefits include reduced paperwork, and the instant item-by-item data for merchandising, ordering, and inventory control.

General use of such systems may be some years down the road. We should know more about that when analysis of our test data is complete.

Sign identifies one of 19 fast food fried chicken outlets of Safeway–Holly Farms joint venture. More are planned.

Continued Growth for Holly Farms Fast Food Outlets

In our joint venture with Holly Farms Poultry Industries, Inc., we opened five more new Holly Farms fried chicken units in 1972. This gave us a total of 19 units at year end, in the Washington, D.C.–Maryland–Virginia–North Carolina area.

This is a successful operation, and our plans call for opening several more outlets in 1973.

Note checker's hands; she is passing the electronic scanning wand over identifying mark on package. At that point computer takes over, flashes price on display panel, prints customer receipt (coming out of box in counter) and updates store sales data by item.

Fire Destroys Powell River Store; Customers Served by Ferry

On the evening of May 30, 1972, fire destroyed the Safeway store at Powell River, a small town about 100 miles up the coast of British Columbia, Canada.

The people of the town depended on this store for food and other necessities. Rebuilding would take months—the need was now. Our Powell River staff and Canada Safeway management met this need in a highly innovative way: they set up a system to bring in groceries daily by ferry boat from our store in Courtenay on Vancouver Island, about 20 miles across the Strait of Georgia.

At a small office rented in the shopping center, four employees of our Powell River store took customer orders by drop-in or phone. These orders were sent daily to Courtenay; were filled there and returned in a Safeway truck back across the strait by ferry. Customers picked up their purchases next morning at the shopping center parking lot.

They received cash register receipts and were on their way with meat, produce, and groceries from Safeway.

The Powell River story—truly community service, by Safeway people.

Firemen (top photo) fight blaze that destroyed Safeway store at Powell River in British Columbia. Auto ferry transports Safeway truck from Vancouver Island into town daily with customer orders placed day before.

Progress Cited by Affirmative Action Program Coordinator

Larry J. Taft

Affirmative action in minority hiring and promotion continues a strong concern of the Company.

Minority persons in 1972 were 14.3% of our U.S. work force, against 10.7% in 1966, according to Larry J. Taft, our full-time Affirmative Action Program Coordinator. Actual numbers increased by 5,000, up 81%.

We expect our continuing efforts for equal opportunity in employment and promotion to continue to benefit all concerned, including the Company.

300 Attend D.C. Nutrition Seminar

About three hundred home economics teachers and nutritionists attended a nutrition seminar put on by our Washington, D.C. Division last year.

They came to the four-hour session from Washington, Virginia, and Maryland to hear experts and to participate in discussions on the nutritional role of fresh fruits and vegetables.

In view of the strong interest shown, further seminars are being considered on such topics as meats and convenience foods.

During the year many Safeway Divisions carried on a variety of consumer education programs, including luncheon meetings, plant visits, and use of educational literature.

Safeway home economists and gourmeticians shown checking "Fresh Produce Appetizer Buffet" at seminar for home economics teachers and nutritionists in the Washington, D.C. area. Seminar provided opportunity to discuss latest information on nutrition.

Rocky Mountains provide spectacular backdrop for this new large (27,300 sq. ft.) Safeway supermarket which opened last December in Leadville, Colorado. Elevation here is 10,200 feet, making this Safeway's highest store, nearly two miles above sea level.

SAFEWAY'S CORPORATE OBJECTIVES

To make Safeway stock an increasingly profitable investment for our shareholders.

To practice responsible citizenship in the conduct of our business, and in community and social relations.

To satisfy increasing numbers of customers, at a profit sufficient to assure the continuing healthy growth of the Company.

To provide attractive, convenient stores staffed with courteous employees, and stocked with the products customers want.

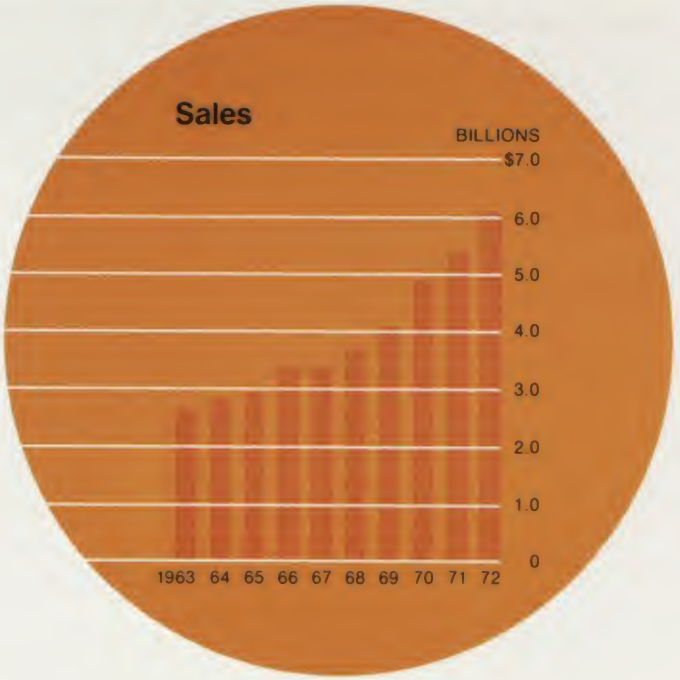
To be known for superior perishables—meats, produce, dairy products, and baked goods.

To operate efficiently at the lowest costs consistent with quality and growth.

To be alert to new ideas, opportunities, and change.

To strengthen our organization by continuous and systematic training and development of employees and managers.

To offer our employees responsibility, challenge, and satisfying rewards for accomplishment.



1972 Financial Review

SALES UP 13.0%. In 1972 sales exceeded $6 billion for the first time, and for the tenth consecutive year a new all-time high in sales was achieved. Sales during 1972 amounted to $6.06 billion, an increase of 13.0% over 1971.

Table A shows sales by country. Overseas sales increased an average of 49% and represented 3.8% of total 1972 sales compared to 2.9% in 1971.

INCOME UP 13.6%. Net income after taxes in 1972 rose to $91.1 million, another all-time high and an increase of 13.6% over 1971.

Net income per share in 1972 increased to $3.55 per share compared with $3.14 per share in 1971. During 1972 return on average stockholders' equity was 15.81% compared with 15.38% in 1971. Net income as a percentage of sales was 1.50% in both 1972 and 1971.

Gross Profit of $1,211 million in 1972 represented an increase of $125 million over last year but decreased as a percentage of sales to 20.0% from 20.3% in 1971. Operating and Administrative Expenses in 1972 increased over last year but decreased as a percentage of sales to 17.1% from 17.3% in 1971. The increase in Gross Profit dollars more than offset the higher Operating and Administrative Expenses and resulted in an Operating Profit of $176 million or 2.91% of sales in 1972 compared with $158 million or 2.96% last year.

TAXES ON INCOME. Provisions for Federal, Canadian and other Income Taxes amounted to $77.3 million in 1972, and $74.9 million in 1971. Such taxes represented 45.9% of income before provision for income taxes in 1972 and 48.3% in 1971. The provision for U.S. Federal Income Taxes was reduced by an investment tax credit of $5,300,000 or 21¢ per share in 1972 and by $3,000,000 or 12¢ per share in 1971. Such credits are based on placement in service of qualifying equipment in those years.

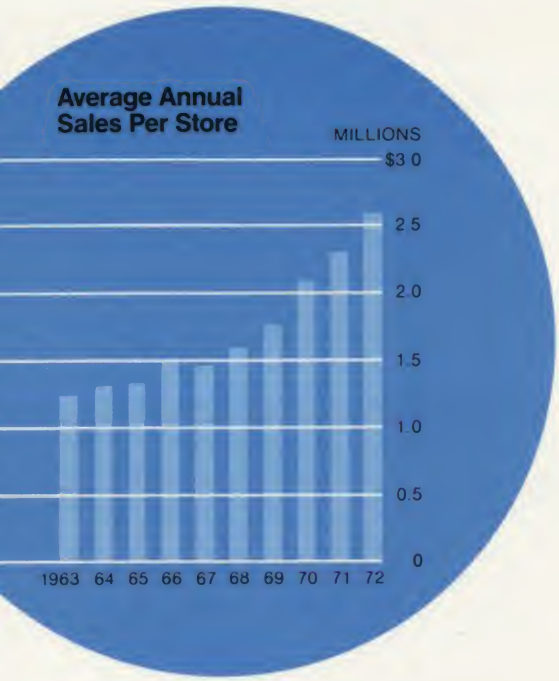
A comparative summary of income tax provisions is shown below:

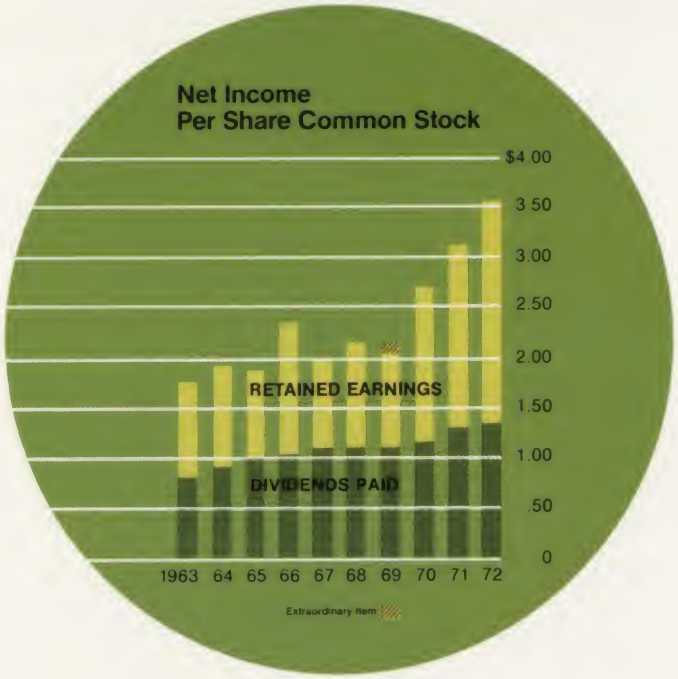
	1972	1971
Current		
Regular tax	$79,924,653	$78,328,613
Less investment tax credit	5,300,000	3,000,000
	74,624,653	75,328,613
Net deferred tax increase (decrease)	2,683,204	(380,489)
	$77,307,857	$74,948,124

Canadian and United States Corporation Income Tax Returns for all years prior to 1969 have been reviewed by taxing jurisdictions. Returns for 1969 through 1971 are under review, and for 1972 are subject to review. The U.S. Internal Revenue Service has proposed an assessment of $7.6 million for the years 1963 through 1968 based on a disallowance of the Company's U.S. Employee Retirement Plan contributions for those years. There is a related potential assessment for the years 1969 through 1971 estimated to be about $4.0 million. Any Retirement Plan contributions which may ultimately be disallowed would be carried forward and claimed as deductions in future years and thus there would be no decrease in stockholders' equity. Management believes that adequate provision has been made for payment of taxes with respect to the returns that have been reviewed or which are subject to review and that any possible additional assessments, in excess of those

TABLE A Sales by Country

(In millions U.S. $)	1972	1971	Per Cent Increase	Percent of Total 1972	Percent of Total 1971
United States	$5,049.2	$4,522.1	11.7%	83.4%	84.4%
Canada	774.3	679.8	13.9	12.8	12.7
United Kingdom	117.9	86.5	36.3	1.9	1.6
Australia	89.9	53.0	69.6	1.5	1.0
West Germany	26.3	17.4	51.1	.4	.3
Total Sales	$6,057.6	$5,358.8	13.0%	100.0%	100.0%





provided for, will not result in any material adverse effect on stated earnings or financial position.

No provision has been made for income taxes which might be payable if accumulated earnings of foreign subsidiaries were distributed to the parent company since it is the present intention of management to reinvest such earnings permanently in foreign operations. The cumulative amount of such undistributed earnings on which the parent company has not provided for income taxes, if any, was $155,256,990 at the end of 1972. Should any distribution be required, any income tax payable would be substantially offset by foreign tax credits.

DIVIDENDS. Four quarterly cash dividends of 33¾ cents a share, totaling $1.35, were paid on common stock during 1972. This compared with a total of $1.30 per share in 1971 and $1.15 in 1970. Under Phase II of the U.S. Economic Stabilization Program, the rate of dividend increase was subject to a voluntary guideline of 4% during 1972 and early 1973. This guideline for maximum increase continues under Phase III in 1973. On February 21, 1973, the quarterly dividend rate, beginning with the dividend payable March 30, 1973, was raised to 35¢ a share, the maximum increase permissible under Phase III guidelines.

INVENTORIES. The major classes of inventory included in the consolidated balance sheet, and used in determining cost of sales, were as follows at year-end (in thousands of dollars):

	1972	1971	1970
Merchandise	$450,870	$382,958	$329,128
Raw materials	15,125	14,638	15,633
Supplies	6,585	6,477	5,488
	$472,580	$404,073	$350,249

PROPERTY. Capital expenditures for property, plant and equipment, net of retirement and miscellaneous equipment sales, amounted to $211 million during 1972 and $173 million during 1971. The major part of this expenditure was involved in the opening of 142 new stores and the completion of 8 new warehouses and plants. Expenditures were also made in 1972 for 49 major store remodels as well as for expanding 17 plants and warehouses.

The 142 new stores opened in 1972 averaged over 22,600 square feet in size, containing 3.2 million square feet in total. In 1972, 94 older, smaller stores containing approximately 1.2 million square feet were closed. Thus, the net gain in number of stores in 1972 was 48; the net gain in square feet was approximately 2.0 million representing an increase of 4.9%.

At the end of 1972, we operated 2,331 stores averaging 19,200 square feet in size, with a total area of 44.8 million square feet. Table B shows the number of new stores opened during the past five years, and the number and area of stores in operation in each country at the end of 1972.

Provision for depreciation was $62,495,071 in 1972 and $54,814,262 in 1971. Fixtures and equipment included in Properties, at cost, consisted of the following:

	1972	1971
Store, warehouse and plant fixtures and equipment	$560,630,191	$499,720,530
Automotive equipment	89,736,260	80,148,685
	$650,366,451	$579,869,215

PAYABLES AND ACCRUALS. Payables and accruals consisted of the following:

	1972	1971
Accounts payable:		
Trade	$177,053,399	$144,987,038
Other	75,701,420	87,411,026
	252,754,819	232,398,064
Accrued expenses:		
Salaries, wages and other compensation	42,754,737	36,406,260
Taxes, other than income taxes	13,950,117	12,845,973
Rent, insurance and other	27,392,716	20,615,862
	84,097,570	69,868,095
	$336,852,389	$302,266,159

LONG-TERM DEBT. On April 6, 1972, the Company issued $65 million 7.40% Sinking Fund Debentures due April 1, 1997. The funds received from the sale of these debentures were used to repay short-term borrowings and are being used in the continued expansion and modernization of the Company's facilities. Mandatory sinking fund payments for the retirement of these debentures commence in 1978.

Notes and debentures payable at December 30, 1972 consisted of:

	Due After One Year	Current Maturities
4.65% term notes payable, unsecured	$ 18,000,000	$3,000,000
8¾% notes payable, unsecured, guaranteed by Canada Safeway Limited	20,000,000	—
7.40% sinking fund debentures, unsecured	65,000,000	—
Mortgage notes payable, secured	20,794,807	840,471
Other notes payable	4,327,775	556,208
	$128,122,582	$4,396,679

The above mortgage notes payable are secured by properties which are included in the balance sheet at their book value of $24,377,510.

During 1972 two mandatory semi-annual payments of $1.5 million each were made on the 4.65% notes, which also provide certain prepayment options at varying premium rates to maturity. Under agreement covering the 7.40% debentures, $127,372,173 of the retained earnings as of December 30, 1972 were free of restrictions for dividend payments and acquisitions of common stock. Other restrictions applicable to both the notes and debentures include a limitation on the creation of additional funded debt.

Aggregate annual maturities of long-term debt for the next five years are:

	Notes & Debentures	Mortgage Notes
1973	$3,556,208	$840,471
1974	$3,384,892	$885,216
1975	$23,270,796	$768,075
1976	$3,399,587	$816,569
1977	$3,251,102	$844,045

CAPITAL STOCK AND ADDITIONAL PAID-IN CAPITAL. Capital stock as of year-end 1972 and 1971 consisted of 220,372 shares of 4% cumulative preferred, authorized and unissued, and 27,000,000 shares of common stock authorized at a par value of $1.66⅔ per share. Outstanding common stock amounted to 25,720,871 shares at the end of 1972, compared with 25,562,831 shares a year earlier. These are after deducting 45,981 treasury shares at the end of 1972 and 1971. On February 21, 1973, the Board of Directors recommended for stockholder approval an increase in the number of authorized shares of common stock to 75 million.

The increase in Additional Paid-in Capital during 1972 of $3,689,147, and during 1971 of $1,658,832, consists of the excess proceeds over par value of shares issued under options exercised during the year.

CHANGES IN FINANCIAL POSITION AND WORKING CAPITAL. As shown in the Statement of Changes in Consolidated Financial Position on page 22, funds of $315,646,000 were provided during the year. These were primarily from net income, $91,056,000; from depreciation and amortization charges not requiring funds, $62,891,000; from sales of properties, $70,225,000; and proceeds from issuance of debentures, $65,000,000.

These funds were used primarily for net additions in property, $210,986,000; for payment of dividends to stockholders, $34,636,000; and to increase the working capital necessary to operate the business, $62,586,000. This increase in working capital was for increases of $68,507,000 in merchandise inventories, and $18,692,000 in cash, which were partially offset by an increase of $34,586,000 in payables and accruals.

Current assets as shown on the Consolidated Balance Sheet on page 21 were 1.64 times current liabilities at year-end compared to 1.51 times at the end of 1971.

EMPLOYEE RETIREMENT AND PROFIT-SHARING PLANS. The Company and its Canadian subsidiaries have contributory, trusteed Retirement Plans which may be amended or terminated at any time, for eligible employees not covered by other plans to which the Company contributes. The assets of the trust funds are sufficient to fund vested benefits. Contributions charged to income were $4,945,626 in 1972 and $4,980,455 for 1971.

Contributions charged to income for Safeway's U.S. Profit-Sharing Plan were $5,888,525 in 1972 and $5,584,124 for 1971.

STOCK OPTIONS. The following summary shows the changes during 1971 and 1972 in qualified and restricted options granted to key employees to purchase shares of the Company's Common Stock:

	Shares	Option Price
Balance beginning of 1971	454,550	$22.00-30.59
Granted, 1971	—	—
Exercised, 1971	64,320	$22.00-30.59
Expired, 1971	1,700	$22.88-24.88
Balance beginning of 1972	388,530	$22.00-30.59
Granted, 1972	54,100	$36.25-38.81
Exercised, 1972	158,040	$22.00-30.59
Expired, 1972	3,485	$22.00-24.88
Balance, December 30, 1972	281,105	$24.88-38.81

At the end of 1972 there were 113,835 unoptioned shares available for granting compared with 164,450 at the beginning of the year. On February 21, 1973 the Board of Directors recommended for stockholder approval a Stock Option Plan of 1973.

COMMITMENTS. The Company has commitments under contracts for the purchase of land and for the construction of buildings. Portions of such contracts not

TABLE B Stores by Country

	End of Fiscal Year 1972		Number of Stores Opened During Past 5 Years					Opened Prior
	Million Sq. Ft.	Number of Stores	1972	1971	1970	1969	1968	to 1968
United States	38.0	1,959	111	91	98	94	105	1,460
Canada	5.2	269	17	12	19	15	11	195
United Kingdom	.8	53	6	10	5	4	3	25
Australia	.7	36	5	6	3	4	3	15
West Germany	.1	14	3	2	3	—	1	5
Total	44.8	2,331	142	121	128	117	123	1,700

Note: Prior year information for overseas restated to reflect their fiscal year.

completed at year-end are not reflected in the financial statements. Such unrecorded commitments amounted to approximately $41,016,000 at year-end 1972 as compared to $44,700,000 for 1971.

Safeway and its subsidiaries occupy primarily leased premises. Long-term leases are in effect on 2,796 properties. Of these leases, 1,488 can be cancelled by the Company by offer to purchase the properties at original cost less amortization, with purchase obligatory upon acceptance of the offer by the landlords.

Minimum rental on leases in effect at the year-end was approximately as follows for the years or periods indicated:

1973	$102,820,000	1978-1982	$450,939,000
1974	101,850,000	1983-1987	301,001,000
1975	101,061,000	1988-1992	152,188,000
1976	100,401,000	After 1992	98,233,000
1977	99,508,000		

CONTINGENT LIABILITIES. Various claims and lawsuits arising in the normal course of business are pending against the Company. To the extent that such contingent liabilities are uninsured or otherwise not provided for, General Counsel for the Company is of the opinion that the final outcome of such actions will not have a significant adverse effect on the financial statements at December 30, 1972.

During 1972 the Company's U.S. operations were subject to pricing restraints under Phase II of the Economic Stabilization Act of 1970. These restraints were continued with some Phase III modifications in 1973. The Company does not presently foresee any material adverse effect resulting from such controls.

FOREIGN OPERATIONS. Sales and income of foreign operations in Canada and overseas continue to expand at a greater rate than the Company overall. Canadian sales increased by 13.9% in 1972 and net income increased 21.8%. For the three overseas subsidiaries combined, sales increased by 49.2% and net income increased by 109%. The Canadian and overseas subsidiaries combined accounted for 16.6% of total consolidated Safeway sales in 1972 and for 24.1% of consolidated net income. The parent company's equity in earnings of subsidiaries was $21,728,000 in 1972 and $16,630,770 in 1971.

Table C shows certain comparative Balance Sheet and Income Statement information for 1972 and 1971 for the Canadian subsidiary and its overseas subsidiaries (the United Kingdom, Australia, and West Germany).

SUMMARY OF ACCOUNTING POLICIES. The Company believes that the accompanying financial statements may be read with greater understanding by reference to the following concise descriptions of the accounting policies and procedures followed. These policies and procedures conform to generally accepted accounting principles and have been applied on a consistent basis.

Fiscal Year: The fiscal year for the Company's U.S. and Canadian operations ends on the Saturday nearest to December 31. Normally, each fiscal year consists of 52 weeks but every 5 or 6 years the fiscal year consists of 53 weeks in order to maintain the year-end on the Saturday nearest to December 31. Fiscal years of overseas subsidiaries follow a similar pattern but generally end on the Saturday nearest September 30.

Basis of Consolidation: Consolidated financial statements include results of operations, account balances, and changes in financial position of all subsidiaries except one minor overseas subsidiary which is included in miscellaneous investments at the amount of equity in net book value. All inter-company transactions have been eliminated in consolidation.

Translation of Foreign Currencies: On consolidation, amounts for foreign subsidiaries were translated to U.S. dollars by using the year-end rates of exchange for current assets and liabilities, and historical rates for long-term items. Operating results were translated at the 1972 average rates of exchange, except for items which represent amortization of long-term assets which were translated at historical rates. Losses arising from translation are charged to income; gains are credited to income only to the extent of previously recognized losses.

Net Income Per Share: Net income per share is determined by dividing consolidated annual net income by the average number of common shares outstanding during the year.

Provision for Income Taxes: The Company follows the generally accepted practice of providing for deferred income tax charges and credits resulting from timing differences in reporting income and expenses for financial purposes compared to the methods of reporting for income tax purposes. These timing differences arise primarily from the Company's use, for tax purposes, of accelerated depreciation and, for book purposes, accruing estimated expenses for self-insurance reserves and related items. These deferred charges and credits are amortized as the timing differences later reverse. The net effect of these timing differences is shown in the comparative summary of income tax provisions on page 15. The Company has consistently reduced current federal tax provisions for investment tax credits in the year in which they arise, rather than spreading such credits over the productive life of the related equipment.

Depreciation: Depreciation is computed for financial report purposes on the straight-line method, which means that approximately equal amounts of depreciation are charged against operations each year during the useful life of each item or category of buildings, improvements or equipment. For tax purposes accelerated methods are used for depreciation.

The following are the principal rates of depreciation used for financial purposes during the year:

Store, warehouse and other buildings	2½ to 5%
Building equipment	5 to 10%
Furniture, fixtures and equipment	5 to 20%
Automotive equipment	12½ to 16⅔%
Installation costs	6⅔ to 16⅔%

Leasehold improvements include buildings constructed on leased land and improvements to leased buildings. Such buildings and major improvements are amortized over the remaining period of the lease or the normal life of the buildings, whichever is less, and lesser improvements are amortized over the period of the lease or six years, whichever

TABLE C

Balance Sheet Data [1]	Canadian Operations[2]		Overseas Operations		Consolidated	
	1972	**1971**	**1972**	**1971**	**1972**	**1971**
Current Assets	$ 97,088	$ 83,110	$ 21,239	$ 15,279	$ 118,327	$ 98,389
Investment in Overseas Subs.	46,878	35,282	—	—	—	—
Other Assets	1,103	1,232	3,799	3,909	4,902	5,141
Property (net)	85,079	76,068	42,736	31,187	127,815	107,255
Total	$230,148	$195,692	$ 67,774	$ 50,375	$ 251,044	$210,785
Current Liabilities	$ 44,533	$ 31,829	$ 17,789	$ 13,527	$ 62,322	$ 45,356
Long-term Liabilities	22,744	22,141	3,050	1,516	25,794	23,657
Loan by Parent	—	167	23,011[2]	14,630[2]	—	167
Preferred Stock	4,514	4,879	—	—	4,514	4,879
Equity of Parent	158,357	136,676	23,867	20,652	158,357	136,676
Minority Interest	—	—	57	50	57	50
Total	$230,148	$195,692	$ 67,774	$ 50,375	$ 251,044	$210,785
Income Statement [1]						
Sales	$774,267	$679,785	$234,114	$156,963	$1,008,381	$836,748
Cost of Sales	620,565	545,570	191,486	128,018	812,051	673,588
Gross Profit	153,702	134,215	42,628	28,945	196,330	163,160
Operating and Administrative Expenses	119,516	106,179	35,099	24,694	154,615	130,873
Operating Profit	34,186	28,036	7,529	4,251	41,715	32,287
Other Income and (Deductions)	795	1,679	(1,445)	(920)	(650)	759
Income Before Taxes	34,981	29,715	6,084	3,331	41,065	33,046
Provision for Income Taxes	16,445	14,496	2,693	1,707	19,138	16,203
Net Income	$ 18,536	$ 15,219	$ 3,391	$ 1,624	$ 21,927	$ 16,843

[1] In thousands of U.S. dollars. [2] Includes Canada Safeway International Finance Corp.

is shorter.

Amortization of Excess Cost of Investments in Subsidiaries: The original cost of certain subsidiaries was greater than their net book asset values at date of acquisition. Such excesses are being amortized and charged against income in twenty equal annual amounts of approximately $217,800 starting in 1970.

Inventories: Inventories are valued at the lower of cost or replacement market value at year-end. Cost of approximately 51% of year-end inventories has been determined by the first-in, first-out method (merchandise inventories in warehouses and all raw materials and supplies) and approximately 49% by the retail method (substantially all merchandise in stores).

Properties for Development and Sale Within One Year: This entry under Current Assets represents the original cost of land and improvements developed for use by the Company and for which commitments have been received for sale and leaseback during the following year.

Employee Retirement Plan: The Company's practice is to contribute the full normal cost and there is no unfunded past service liability.

Stock Options: Proceeds from the sale of stock issued under options are credited to Common Stock at par value and the excess of the option price over par value is credited to Additional Paid-in Capital.

Safeway Stores, Incorporated and Subsidiaries

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

For the 52 Weeks Ended December 30, 1972 and January 1, 1972

	1972	1971
Sales	$ 6,057,633,445	$ 5,358,836,647
Cost of Sales	4,846,246,810	4,272,272,971
Gross Profit	1,211,386,635	1,086,563,676
Operating and Administrative Expenses	1,035,115,899	928,127,638
Operating Profit	176,270,736	158,436,038
Other Income and Deductions		
Income		
Interest received and sundry income	2,147,344	3,521,518
Earnings of unconsolidated foreign subsidiary	45,179	33,165
	2,192,523	3,554,683
Deductions		
Interest expense	9,559,702	5,469,525
(Gain) loss on disposition of fixed assets	(133,383)	842,666
Dividends on preferred stock of Canadian subsidiary	198,634	212,130
Amortization of excess cost of investments in subsidiaries	217,815	217,810
Minority interest in earnings of overseas subsidiary	7,311	2,671
Other charges (net)	249,451	118,942
	10,099,530	6,863.744
Income before provision for income taxes	168,363,729	155,126,977
Provision for Federal, Canadian and other Income Taxes	77,307,857	74,948,124
Net Income (per share: 1972, $3.55; 1971, $3.14)	91,055,872	80,178,853
Retained Earnings at Beginning of Period	455,181,972	408,128,150
	546,237,844	488,307,003
Deduct		
Cash dividends on common stock (per share: 1972, $1.35; 1971, $1.30)	34,635,909	33,199,959
Additions resulting from stock acquisitions	(64,756)	(74,928)
	34,571,153	33,125,031
Retained Earnings at End of Period	$ 511,666,691	$ 455,181,972

See financial information included in "Financial Review"

ACCOUNTANTS' REPORT

Peat, Marwick, Mitchell & Co.

To the Board of Directors and Shareholders of Safeway Stores, Incorporated:

We have examined the consolidated balance sheets of Safeway Stores, Incorporated and subsidiaries as of December 30, 1972 and January 1, 1972 and the related statements of income and retained earnings and changes in financial position for the 52 week periods then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at December 30, 1972 and January 1, 1972 and the results of their operations and changes in financial position for the 52 week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

2150 Valdez Street
Oakland, California 94612
February 28, 1973

Peat, Marwick, Mitchell & Co.

CONSOLIDATED BALANCE SHEET As of December 30, 1972 and January 1, 1972

ASSETS

	December 30, 1972	January 1, 1972
Current Assets		
Cash	$ 71,146,911	$ 52,454,719
Receivables	18,948,820	18,935,652
Merchandise inventories	472,580,068	404,073,420
Prepaid expenses	28,034,008	22,045,144
Properties for development and sale within one year	14,725,214	17,171,111
Total Current Assets	605,435,021	514,680,046
Other Assets		
Notes receivable, licenses and miscellaneous investments	11,922,308	10,946,810
Unamortized note and debenture issue expense	1,116,615	571,257
Excess of cost of investment in subsidiaries over net assets at date of acquisition, net of amortization	3,702,749	3,920,564
	16,741,672	15,438,631
Property, at Cost		
Buildings	74,282,985	51,542,296
Leasehold improvements	111,797,375	100,633,423
Fixtures and equipment	650,366,451	579,869,215
	836,446,811	732,044,934
Less accumulated depreciation	371,681,583	339,737,042
	464,765,228	392,307,892
Land	50,433,066	42,044,427
	515,198,294	434,352,319
TOTAL	$1,137,374,987	$ 964,470,996

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Notes payable to banks, short-term	$ —	$ 9,100,000
Current maturities of long-term notes	4,396,679	4,268,262
Payables and accruals	336,852,389	302,266,159
Federal, Canadian and other income taxes	26,815,667	24,261,183
Total Current Liabilities	368,064,735	339,895,604
Long-Term Liabilities and Reserves		
Notes and debentures payable	128,122,582	50,207,566
Deferred income taxes	23,380,134	17,976,930
Minority interest in capital stock and retained earnings of subsidiaries:		
Preferred stock of Canadian subsidiary	4,514,400	4,879,100
Overseas subsidiary	57,058	49,747
Reserve for self-insurance	6,931,339	5,594,576
	163,005,513	78,707,919
Stockholders' Equity		
Common stock	42,868,118	42,604,718
Additional paid-in capital	51,769,930	48,080,783
Retained earnings	511,666,691	455,181,972
	606,304,739	545,867,473
TOTAL	$1,137,374,987	$ 964,470,996

See financial information included in "Financial Review"

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

For the 52 Weeks Ended December 30, 1972 and January 1, 1972

	1972	1971
Funds Provided:		
Net Income	$ 91,055,872	$ 80,178,853
Add charges (credits) to income not requiring funds:		
Depreciation and amortization	62,890,873	55,178,208
Increase in reserve for self-insurance	1,336,763	1,687,370
(Gain) loss on disposition of property	(133,383)	842,666
Increase (decrease) in deferred income taxes	5,403,204	(1,565,584)
Total from operations	160,553,329	136,321,513
Proceeds from sale of properties	70,224,662	82,130,718
Issuance of long-term debt	65,000,000	—
Increase in other long-term debt	15,915,016	6,828,852
Sale of common stock to employees	3,952,547	1,766,032
	$ 315,645,554	$ 227,047,115
Funds Used:		
Additions to property, net of retirements and miscellaneous equipment sales	$ 210,986,428	$ 173,205,966
Decrease in properties for sale within one year	2,445,897	769,675
Dividends to common stockholders	34,635,909	33,199,959
Decrease in long term debt	3,000,000	3,000,000
Increase in other assets	1,698,843	1,185,878
Decrease in minority interest, net	292,633	297,301
Increase in working capital	62,585,844	15,388,336
	$ 315,645,554	$ 227,047,115
Changes in Working Capital:		
Increase (decrease) in current assets:		
Cash	$ 18,692,192	$(12,587,037)
Receivables	13,168	2,425,022
Merchandise inventories	68,506,648	53,824,177
Prepaid expenses	5,988,864	8,863,899
Properties for sale within one year	(2,445,897)	(769,675)
	90,754,975	51,756,386
Increase (decrease) in current liabilities:		
Notes payable to banks	(9,100,000)	(2,792,828)
Current maturities of long-term notes	128,417	357,158
Payables and accruals	34,586,230	36,465,827
Federal, Canadian and other income taxes	2,554,484	2,337,893
	28,169,131	36,368,050
Increase in working capital	$ 62,585,844	$ 15,388,336

See financial information included in "Financial Review"

Safeway Stores, Incorporated

EXECUTIVE COMMITTEE

Robert A. Magowan
Chairman

Ernest C. Arbuckle

Charles de Bretteville

A. Russell Griffith

Roger D. Lapham, Jr.

Merrill L. Magowan

W. S. Mitchell

Quentin Reynolds

Milton L. Selby

DIRECTORS

Ernest C. Arbuckle
Chairman of the Board
Wells Fargo Bank

J. G. Boswell II
President and Director
J. G. Boswell Company

Henry B. Clay
Senior Vice President

Charles de Bretteville
Chairman of the Board
and Chief Executive Officer
The Bank of California, N.A.

A. Russell Griffith
Retired, formerly Vice President
and Treasurer of the Company

Malcolm P. Grover
Senior Vice President

Lorenzo N. Hoopes
Senior Vice President

Roger D. Lapham, Jr.
Director and Senior Vice President
Corporate Finance, of Frank B. Hall
& Co., Inc. (New York)

Merrill L. Magowan
A Sales Manager of
Merrill Lynch, Pierce,
Fenner & Smith Incorporated
San Francisco

Robert A. Magowan
Chairman of the Executive Committee

W. S. Mitchell
President

G. H. Parker
Senior Vice President

Quentin Reynolds
Chairman of the Board
and Chief Executive Officer

Milton L. Selby
Retired, formerly President
of the Company

OFFICERS

Henry B. Clay*
Senior Vice President—Retail

Clifford L. Gant*
Controller

Malcolm P. Grover*
Senior Vice President
Personnel, Public Affairs,
Industrial Relations and
Economic Research

Lorenzo N. Hoopes*
Senior Vice President
Supply Operations

Philip G. Horton*
Vice President
Real Estate, Construction and
Engineering, Operations Services

James M. McGinty*
Vice President and Treasurer

W. S. Mitchell*
President

G. H. Parker*
Senior Vice President—Retail

Quentin Reynolds*
Chairman of the Board
and Chief Executive Officer

Robert J. Van Gemert*
Vice President and Secretary
General Counsel

Jack L. Anderson
Vice President
Retail Division Manager

Paul A. Baumgart
Vice President
Corporate Economist

John Bell
Vice President
Retail Division Manager

L. A. Bianco
Vice President
Retail Division Manager

C. A. Bradburn
Vice President
Regional Manager

Gerald E. Brown
Vice President
Advertising and Market Research

Carey A. Ford
Vice President
Retail Division Manager

Loyd J. Fox
Vice President
Supply Division Manager

Henry J. Frank
Vice President
Retail Division Manager

Floyd H. Gifford
Vice President
Regional Manager

Frank J. Glasgow
Vice President
Retail Division Manager

Edward N. Henney
Vice President
Supply Division Manager

Robert L. Jaynes
Vice President
Retail Division Manager

Gordon W. Jones
Vice President
Real Estate

Horace A. Justice
Vice President
Regional Manager

Don R. Kelly (deceased 1/28/73)
Vice President
Supply Division Manager

Neils V. Lawson
Vice President
Management Information & Services

W. W. Liedtke
Vice President
Retail Division Manager

Robert E. Livesay
Vice President
Retail Division Manager

Dale L. Lynch
Vice President
Retail Division Manager

Robert M. Lyness
Vice President
Retail Engineering

Fred E. MacRae
Vice President
Retail Division Manager

Peter P. Martin
Vice President
Retail Division Manager

Harold T. Nelson
Vice President
Supply Division Manager

Calvin P. Pond
Vice President
Public Affairs

L. M. Pringle
Vice President
Retail Division Manager

John H. Prinster
Vice President
Grocery Merchandising

Sam E. Raburn
Vice President
Retail Division Manager

James A. Rowland
Vice President
Regional Manager

Walter J. Schoendorf
Vice President
Supply Division Manager

Earl W. Smith
Vice President
Regional Manager

Eldon W. Starkey
Vice President
Retail Division Manager

Harry Sunderland
Vice President
Real Estate Law and Finance

R. E. Templeman
Vice President
Retail Division Manager

John W. Warthan
Vice President
Retail Division Manager

Herman F. Weber
Vice President
Industrial Relations

Basil M. Winstead
Vice President
Regional Manager

Forrest Woolery
Vice President
Retail Division Manager

Alan W. Young
Vice President
Supply Division Manager

*Executive Officers of the Company

Financial Highlights and Ten Year Summary

		1972	1971	1970 (53 Weeks)	1969
Operating Results	Sales	$6,057,633	5,358,837	4,860,167	4,099,647
	Income before provision for income taxes	168,364	155,127	140,462	108,610
	Provision for income taxes	77,308	74,948	71,570	57,305
	Net income	91,056	80,179	68,892	51,305[2]
	As a percentage of sales	1.50%	1.50	1.42	1.25
	As a percentage of stockholders' equity	15.81%	15.38	14.44	11.60
	Per share of common stock	$ 3.55	3.14	2.70	2.14[3]
	Dividends to company stockholders	34,636	33,200	29,315	28,036
	Per share of common stock	1.35	1.30	1.15	1.10
Financial Position	Working capital	$ 237,370	174,784	159,396	140,756
	Current assets per dollar of current liabilities	1.64	1.51	1.53	1.51
	Total assets	1,137,375	964,471	875,705	788,714
	Long-term notes and debentures payable	128,123	50,208	46,379	27,180
	Equity of common stockholders	606,305	545,867	497,048	457,192
	Per share of common stock	23.57	21.35	19.49	17.94
Changes in Financial Position	Funds provided				
	Operations				
	Net income	$ 91,056	80,179	68,892	54,593[3]
	Charges to income not requiring funds				
	Depreciation and amortization	62,891	55,178	50,579	46,638
	Other	6,606	965	4,820	5,418
	Total from operations	160,553	136,322	124,291	106,649
	Sale of properties	70,225	82,131	39,116	45,010
	Issuance of long-term debt	65,000	—	20,000	—
	Other	19,867	8,594	13,621	23
	Total	$ 315,645	227,047	197,028	151,682
	Funds used				
	Additions to properties (net)	$ 210,986	173,206	143,939	129,089
	Dividends to stockholders	34,636	33,200	29,315	28,036
	Increase (decrease) in working capital	62,586	15,388	18,640	(13,803)
	Other	7,437	5,253	5,134	8,360
	Total	$ 315,645	227,047	197,028	151,682
Other Statistics	Number of employees (at end of year)	105,613	97,463	96,760	91,532
	Number of stockholders of record (at end of year)	65,471	67,576	69,098	73,193
	Number of stores opened during year	142	121	128	117
	Number of stores closed during year	94	135	91	98
	Total stores at end of year	2,331	2,283	2,297	2,260
	Total square feet of stores at end of year [1]	44,844	42,752	41,769	40,169
	Average annual sales per store	$ 2,613	2,308	2,094	1,782
	Common Stock price range New York Stock Exchange—Low-High	34-44¼	32⅛-40¼	22⅛-34⅜	23½-30¼

Note: Dollars are in thousands except per share figures. [1] In thousands. [2] Excluding extraordinary gain in 1969 of $3,288,000, net of applicable

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1968	1967	1966	1965	1964 (53 Weeks)	1963
3,685,690	3,360,880	3,345,187	2,939,043	2,817,569	2,649,712
115,526	100,128	117,793	95,150	97,875	94,746
60,465	49,235	58,045	46,965	47,895	49,930
55,061	50,893	59,748	48,185	49,980	44,816
1.49	1.51	1.79	1.64	1.77	1.69
13.20	12.97	16.45	14.41	16.40	15.87
2.16	2.00	2.35	1.89	1.95	1.75
28,036	27,975	26,039	25,549	24,102	21,561
1.10	1.10	1.02½	1.00	.92½	.82½
154,559	137,668	136,582	140,891	140,163	120,177
1.73	1.70	1.69	1.83	1.89	1.74
698,488	653,546	640,673	576,703	557,329	508,055
30,736	34,104	37,259	40,378	43,948	16,677
430,586	403,541	380,262	346,139	322,501	294,551
16.89	15.87	14.96	13.66	12.73	11.71
55,061	50,893	59,748	48,185	49,980	44,816
44,158	41,643	38,750	37,350	34,178	32,230
5,990	(251)	6,025	5,535	3,351	2,631
105,209	92,285	104,523	91,070	87,509	79,677
49,389	39,191	32,112	41,451	44,602	32,938
—	—	—	—	30,000	—
—	19,779	412	11,972	8,924	6,838
154,598	151,255	137,047	144,493	171,035	119,453
103,019	117,311	101,766	90,558	98,885	85,841
28,036	27,975	26,039	25,549	24,102	21,561
16,891	3,086	(4,471)	728	19,986	2,275
6,652	2,883	13,713	27,658	28,062	9,776
154,598	151,255	137,047	144,493	171,035	119,453
83,655	78,000	74,798	69,248	68,804	66,605
72,793	73,851	72,609	66,651	58,100	58,900
123	134	168	177	186	120
119	117	113	139	136	123
2,241	2,237	2,220	2,165	2,127	2,077
39,033	37,850	35,402	32,951	30,795	28,765
1,612	1,475	1,514	1,349	1,322	1,250
23¼-31¼	21⅜-28⅛	23⅝-31½	30⅛-42¼	28-37¾	22¾-32⅜

income taxes, equal to $0.13 per share. [3] Including extraordinary gain in [2] above.

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EXECUTIVE OFFICES

Fourth and Jackson Streets,
Oakland, California 94660

TRANSFER AGENTS

The Chase Manhattan Bank (National Association), New York, New York and the Crocker National Bank, San Francisco, California

REGISTRARS

The Chase Manhattan Bank (National Association), New York, New York
and The Bank of California, National Association, San Francisco, California

ACCOUNTANTS

Peat, Marwick, Mitchell & Co.

ANNUAL MEETING

The 1973 Annual Meeting of the Common Stockholders will be held on May 15, 1973. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed separately to Common Stockholders about April 9, 1973. This Annual Report does not constitute part of the proxy soliciting material.

Litho in U.S.A.

Safeway Stores, Incorporated
Oakland, CA 94660

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